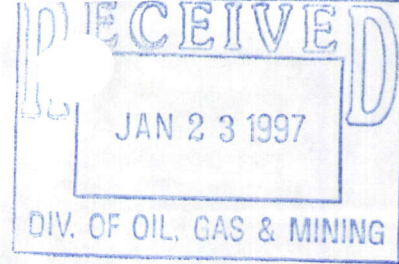


SURFACE INSPECTION
COMPLIANCE REPORT



Date of Inspection: January 3, 1997

Case Serial No.: UTU-072862

Operator: Western States Minerals Corporation (WSMC)

Project Description: Exploration, Heap Leaches

Legal Description: T. 15 S., R. 10 W., Secs. 6, 7, 8, 17, and 18

District and Resource Area: Richfield/House Range

Inspector: Sheri Wysong

REPORT NARRATIVE (REFERENCE STIPULATIONS BY NUMBER OR TITLE)

This was a joint inspection conducted with personnel from the Utah Division of Oil, Gas and Mining (UDOGM). We met at Delta, then drove out to the Jumbo Mine Site. Jumbo took over much of WSMC operation in 1988. The two companies have been in litigation since 1991. The dispute is over reclamation liability. The BLM, UDOGM, and the State of Utah, Division of Water Quality (DWQ) held off on any regulatory action until the resolution of the lawsuit. Unfortunately, the lawsuit is still ongoing, and the agencies feel they can no longer allow the present situation of no activity at the site with no reclamation taking place.

On August 18, 1983, The BLM approved a Plan of Operations for WSMC to build and operate a gold mine and cyanide-heap leach facility. The original POO proposed, most notably, leach pads and two waste dumps. In 1984, the company submitted two amendments, one proposing to move the location of one of the waste dumps, and the other proposed exploration around the vicinity of the mine area. Both of proposals were submitted and approved as amendments to the POO. There were also several other proposals submitted by WSMC, they were submitted as Notices of Intent, and were serialized and accepted as such.

There is no record in the case file of the BLM conducting any inspections at the site until October 14, 1988. By this time, Jumbo Mining was operating at the site. It was also at learned at this time that there were five heap leaches on the site that had never been approved by the BLM or permitted by DWQ, and two additional ones that had not been approved by the BLM. DWQ is the state agency that oversees heap leach construction. Jumbo did not want to assume reclamation liability for all but the two of these unapproved heap leaches, specifically the two that had been permitted by DWQ. It also did not want liability for three

of the waste dumps, two of which had not been proposed or approved in the POO submitted to the BLM. Jumbo was allowed to submit a bond for the reclamation of part of the facilities, which mostly correlated with what was proposed under the original POO. Jumbo also wrote a letter to the BLM, stating that it was "...working under the guidelines of the Plan of Operations submitted by Western States". Jumbo then proceeded to continue leaching the pads for which it had bonded, and added some new ore to one of them. This continued until 1990, when DWQ ordered the cessation of all heap leach activities, due to the fact that the permits for the heaps had expired. It was also about that time that Jumbo and WSMC entered into litigation. WSMC contended that its contract with Jumbo relieved them (WSMC) of all reclamation liability at the site, whereas Jumbo maintained that the contract always intended for them (Jumbo) to assume only liabilities for facilities it intended to use.

The lawsuit plugged along, and the agencies allowed the site to maintain at status quo until March 10, 1995, when a Notice of Noncompliance was issued to Jumbo after BLM Hazmat personnel visited the site. Jumbo conducted some clean up and testing of several chemical spills and storage areas of the site. The NON had also required that an updated reclamation plan be submitted for the site. In the five years after the shutdown, the state of the ditches and pad liners had deteriorated to the point that no further rinsing of the heap leaches could take place, and DWQ had never been able to approve them as decontaminated. The leaky heaps were also discharging effluent to groundwater. This situation required that the heaps be reclaimed by placing an impermeable cap over them, which is a very costly production. Jumbo needed to submit a reclamation plan for this contingency, and post the additional bond necessary.

The BLM feels that it has allowed the companies a reasonable length of time to work out their differences, but with the deterioration occurring at the site it can no longer allow wait for the resolution of the lawsuit. The BLM also maintains that the companies differences with each other are irrelevant to their obligations to the BLM, and it has determined that each company has the following reclamation liabilities:

Since Jumbo submitted a letter to the BLM effectively taking responsibility for the POO, BLM is holding Jumbo liable for all disturbances approved under the POO and its amendments. Jumbo has also indicated to the BLM that it is assuming responsibility for the two heap leaches permitted by DWQ, but not approved by the BLM. (See attached map)

WSMC is liable for all disturbances created in noncompliance, and all disturbance created under its NOIs.

My main objective of this inspection was to document any uninspected disturbances created by WSMC either out of compliance or under its NOIs.

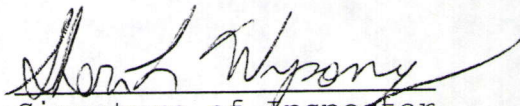
It had rained heavily the night before the inspection, and the pads were discharging effluent. DWQ had recently submitted a letter to Jumbo, stating that it wished to sample effluent from the heaps, to see if they could determine whether the heaps were discharging contaminants. Tom Munson of UDOGM called the DWQ personnel, and they agreed that it would be good if UDOGM could take some samples while they were there. I have attached a copy of UDOGM's inspection report that describes the sampling that took place that day.

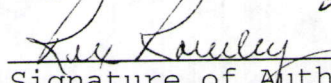
After UDOGM left, Dave Hartshorn of Jumbo and I drove to Busby Spring to the east of the mine site. The spring was up a steep drainage, at the bottom of which was a small pond lined with PVC. Dave said that his watchman, Don Gavin had built the pond so wild life could water there. I told him that I would take to our wildlife biologists about this, and see if they would be interested in building an approved facility, as technically no one should divert water or disturb a riparian area without contacting the proper agencies. The area is already so disturbed however, that I did not feel it was a big issue at this time. The spring releases a very small amount of water. Dave said that it used to flow better, until WSMC had drilled a hole just above the spring on the hill. We hiked up and looked at the hole. It was open, with a metal casing about 6 inches in diameter. The hole was filled with water.

Down below the spring area was a large, dry pond and a pipe structure that had been built to pump water into water trucks. Dave said that WSMC had built them to try to develop a source of water to spray on the roads at the plant site.

In my review of the case files, I found no proposals in either the POO or the NOIs proposing development of this spring, or any drilling near it. If WSMC did create the above disturbances, they were done in noncompliance. WSMC will be asked to insert a 50 foot plug in the drill hole, and to clean up the pond and pipe structure. I will ask Chris Gordon, the House Springs Resource Area riparian team leader, to oversee this project, and any future developments of this spring.

Dave Hartshorn and I finished out the inspection by looking at some disturbances created by Jumbo under an NOI.

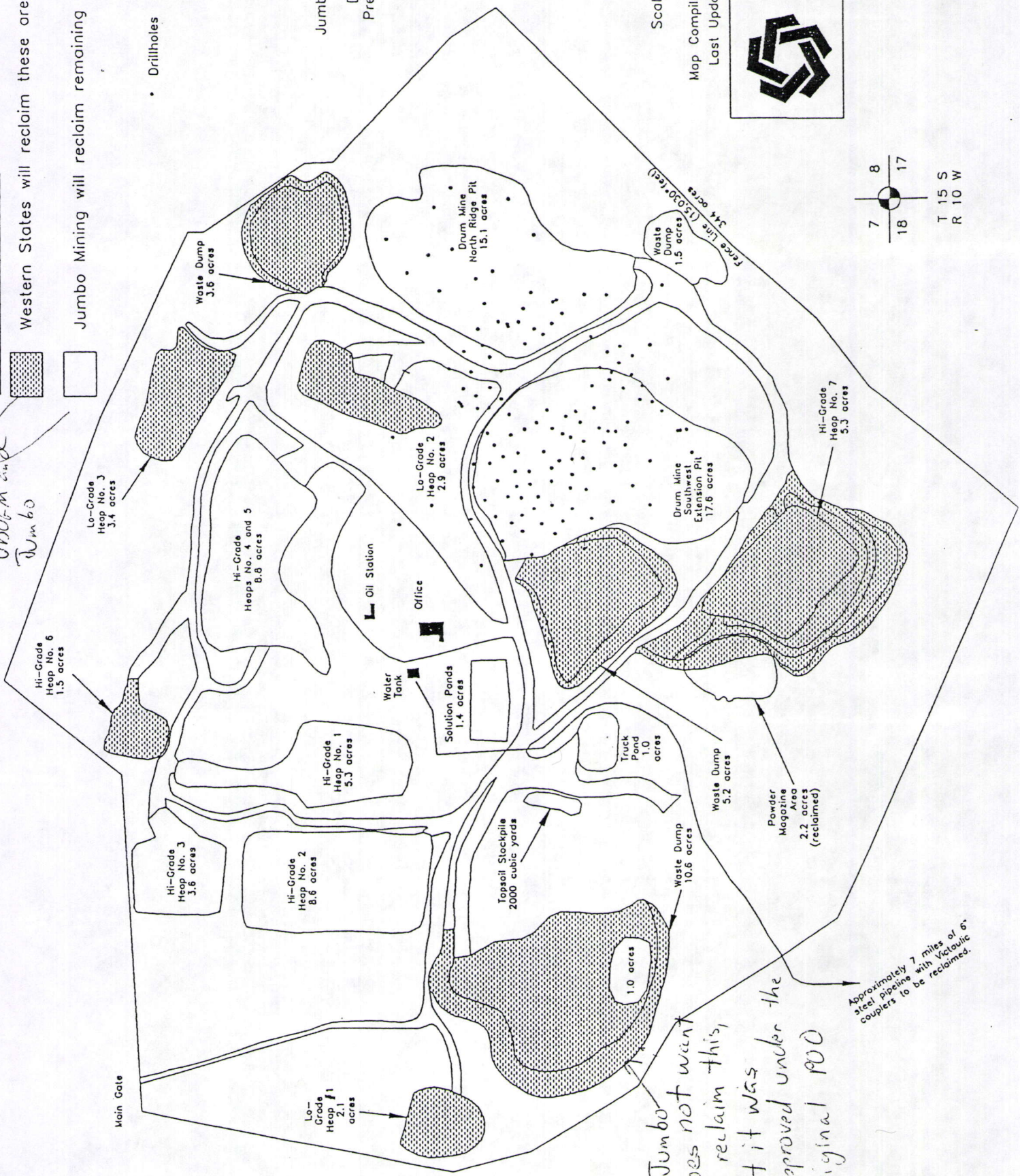

Signature of Inspector


Signature of Authorized Officer

This is an agreement between UNM and Jumbo

EXHIBIT "A"

Western States will reclaim these areas (41.8 acres).
Jumbo Mining will reclaim remaining areas (83.9 acres).



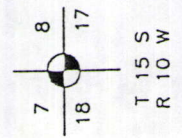
Jumbo Mining Company
M/027/007
Drum Mine Site
Present Disturbance

Scale: 1" = 600'

Map Compiled December 5, 1988
Last Update: July 26, 1989



State of Utah
Department of Natural Resources
Division of Oil, Gas and Mining



Jumbo does not want to reclaim this, but it was approved under the original R00

Approximately 7 miles of 6" steel pipeline with Victrolite couplers to be reclaimed.



State of Utah

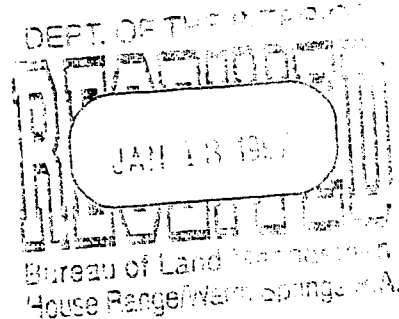
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL, GAS AND MINING

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January 9, 1997

TO: Minerals File

FROM: D. Wayne Hedberg, Permit Supervisor *DWH*

RE: Site Inspection, Jumbo Mining Company, Drum Mine, M/027/007, Millard County, Utah

Date of Inspection: January 3, 1997
Time of Inspection: 9:30 a.m. - 1:30 p.m.
Conditions: Partly cloudy, cool, breezy, intermittent light rain and flurries
Participants: Dave Hartshorn - Jumbo Mining Company, Sheri Wysong - BLM, Mary Ann Wright, Tom Munson & Wayne Hedberg - DOGM, Steve Alder, Dan Moquin - AG's Office

Purpose of Inspection: To provide new management and legal counsel with an opportunity to familiarize themselves with the onsite facilities and present conditions of this mine site.

Division staff met up with Sheri Wysong in Delta and then traveled together out to the Drum Mine site. Recent rains the night before and the morning of our inspection provided an opportunity to witness surface runoff and drainage from some of the inactive heaps. Several water quality samples were collected from a few discharge points at the conclusion of our site inspection. The samples were split with Dave Hartshorn and our samples were transported back to the State analytical lab in Salt Lake City for processing.

Initial introductions and general background discussions were made in the mine office before we proceeded out onto the mine property to observe the mining facilities. During office discussions, Dave stated that the Colorado Appeals Court will hear oral arguments from Jumbo Mining Company ("JMC") and Western States Mining Company ("WSMC") on January 28, 1997. He stated that JMC may file a counter suit against WSMC which hasn't been heard yet. JMC may wait to make that decision until they hear the outcome of the appeals court.

We first walked through the laboratory and plant processing facilities area for a brief explanation on how the cyanide heap leaching system functions. We left the processing plant and proceeded out to tour the processing ponds. A number of the heap discharge pipes were draining solutions into the pregnant pond. The pipe leading from Heaps 4 & 5 was discharging at an estimated 2-3 g.p.m. Discharge from the pipeline leading from Heap #1 was estimated at 1/2-1 g.p.m. Heaps 2

Page 2
Site Inspection Memo
M/027/007
January 9, 1997

& 3 were collectively discharging at an estimated rate of 1-2 g.p.m. Discharge from Heap LG 2 was just trickling into the pond. Upon closer inspection we noted that the conveyance line was broken and basically nonfunctional adjacent to this heap. Heap #7 was also not discharging at the pregnant pond. We noted that this pipeline was broken/disconnected at several locations leading from the heap.

We observed a small amount of discharge trickling from a couple of smaller black pipelines located at the base of Heap 7 (northern end of heap). The drainage was flowing onto the perforated and torn plastic liners of the solution conveyance ditch. We did not inspect all of the discharge pipelines leading from every heap. However, we did observe similar uncoupled or broken conveyance pipelines associated with other heaps. We also noted a few locations on the heaps where minor drainage was occurring. Most of the plastic (and some of the hypalon) ditch liners are badly deteriorated and function marginally at best.

We walked around a number of the heaps and waste rock dumps and observed the condition of the North and South pits as well. We did not have time to inspect the proposed Mizpah Pit location or the partially mined Alto Pit. We did see the proposed location for a new heap leach pad which remains under permit review with the regulatory agencies.

Dave Hartshorn had a number of prepared water sample bottles available onsite which we used to collect some water samples of the surface runoff discharging into the pregnant pond. Multiple (unfiltered) samples were taken from the discharge end of pipes leading from the following heaps: Heaps 1, and Heaps 4 & 5. A sample was also taken from the base of Heap 2 on the East side. A set of split samples was also collected from the base (southwest corner) of Heap HG #2 where solution was draining from the heap into the conveyance ditch. Photos were taken at several of the sampling sites. The samples were placed into coolers, iced and taken to Salt Lake City for processing by the State Analytical Lab on Monday, January 6th. Then only holding time in question was for Nitrates. Dave Hartshorn retained his split samples for personal delivery to American West Analytical Laboratory in Salt Lake City.

We left the mine site at approximately 1:30 p.m. Sheri Wysong and Dave were left to inspect the unknown condition of some older adjacent exploration sites. We arrived back in Salt Lake City shortly after 4:30 p.m.

jb
cc: Dave Hartshorn, JMC
Mark Novak, DWQ
Sheri Wysong, BLM
M027007.ins